



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Montana State Library
Commission*

*For the Two Fiscal Years Ended
June 30, 2021*

AUGUST 2022

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DIVISION

FINANCIAL-COMPLIANCE AUDITS

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2021, was issued June 21, 2022. The Single Audit Report for the two fiscal years ended June 30, 2023, will be issued by March 31, 2024.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

August 2022

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library Commission (library) for the two fiscal years ended June 30, 2021, and 2020. During the audit, we analyzed the financial schedules, reviewed financial records, and tested compliance with state laws and regulations. Our audit resulted in one recommendation related to employee bonuses.

The library's written response related to the audit recommendation is included in the audit report on page C-1. The library partially concurs with the recommendation. As part of our audit procedures, we considered the library's e-mail correspondence with the federal program officer. In that correspondence, management indicated the payments were made in accordance with the state's pay plan policy. We have determined, and management has acknowledged, that the language required to be included in the pay plan policy to govern bonus payments was not included in the policy in place during the audit period. As such, we do not consider the bonus payments to have been made in accordance with the state's pay plan policy and our recommendation stands.

We issued unmodified opinions on the financial schedules for each of the two fiscal years ended June 30, 2021, and 2020, which means the reader can rely on the information in the schedules. The Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With *Government Auditing Standards* does not report any significant deficiencies, material weaknesses, or material noncompliance.

We thank the Montana State Library Commission and the State Librarian and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	ii
Appointed and Administrative Officials	iii
Report Summary	S-1
CHAPTER I – INTRODUCTION AND BACKGROUND	1
What We Did	1
Background.....	1
Prior Audit Recommendation	4
CHAPTER II – FINDINGS AND RECOMMENDATION	5
Incentive Pay	5
INDEPENDENT AUDITOR'S REPORT AND	
MONTANA STATE LIBRARY COMMISSION FINANCIAL SCHEDULES	
Independent Auditor's Report	A-1
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2021	A-3
Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2020	A-4
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2021	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2020	A-6
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2021	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2020	A-8
Notes to the Financial Schedules	A-9
REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance With <i>Government Auditing Standards</i>	B-1
LIBRARY RESPONSE	
Montana State Library	C-1

FIGURES AND TABLES

Figures

Figure 1	Sources of Revenue	3
Figure 2	Expenditures	4

Tables

Table 1	Library Bonus Funding Sources.....	5
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APPOINTED AND ADMINISTRATIVE OFFICIALS

<u>Name</u>	<u>City</u>	<u>Term Expires</u>
Kenning Arlistsch, Chair*	Bozeman	October 2022
Kristin Kerr, Vice Chair	Helena	June 2024
Tamara Hall	Bozeman	June 2022
Dalton Johnson	Missoula	June 2023
Peggy Taylor	Whitefish	June 2023
Robyn Scribner	Geraldine	June 2024
Elsie Arntzen	Superintendent of Public Instruction	

* Appointed by the Commissioner of Higher Education for the Montana University System.

Montana State Library	Jennie Stapp, State Librarian
	Evan Hammer, Digital Library Administrator
	Malissa Briggs, Central Services Manager

For additional information concerning the Montana State Library Commission, contact:

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 Central Services Manager
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 P.O. Box 201800
 Helena, MT 59620-1800

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL COMPLIANCE AUDIT

Montana State Library Commission

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

A report to the Montana Legislature

BACKGROUND

Montana State Library (library) serves the informational needs of all branches of state government, its agencies, local counterparts, and individuals seeking information and materials not found in their local libraries.

The Montana State Library Commission administers state and federal funding to operate the state library; provides assistance and advice to all tax-supported libraries throughout the state; maintains a library of reading material for Montanans unable to utilize printed materials; and maintains a centralized clearinghouse for Montana's natural resources information and heritage, preserves state publications, and offers digital library services to Montana residents via the internet.

The Montana State Library is the source for state government information, natural resources information, and geographic information for all Montanans. In fiscal year 2021, the library received \$750,000 in funding in response to the pandemic, which was used to launch a mobile hot spot and device lending program to address the need for internet access during the pandemic. During our audit we reviewed the changes in financial activity and we found the library was not in compliance with state policy or federal regulation for incentive pay during the audit period.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We found the library's financial schedules and note disclosures presented fairly the activity of the library, in all material respects, and issued unmodified opinions on them. This means that a reader can rely on the information in the library's financial schedules and notes presented in the report.

For the full context of the library's financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the library: 1

To the legislature: 0

In this report, we determined the implementation status of recommendations in the prior audit:

Fully Implemented: 1

Partially Implemented: 0

Not Implemented: 0

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

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RECOMMENDATION #1 (page 6):

State Compliance, Federal Compliance

We recommend the Montana State Library comply with state policy and federal regulations regarding employee incentive pay.

Library response: Partially Concur

REPORT ON INTERNAL CONTROL AND COMPLIANCE

(page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 0

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

What We Did

We performed a financial-compliance audit of the Montana State Library Commission (library) for the two fiscal years ended June 30, 2021. The objectives of this audit were to:

1. Obtain an understanding of the library's control systems to the extent necessary to support our audit of the library's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the library.
2. Determine whether the library's financial schedules present fairly the results of operations and changes in fund equity for each of the two fiscal years ended June 30, 2020, and June 30, 2021.
3. Determine whether the library complied with selected applicable state laws and regulations.

To achieve these objectives, we obtained an understanding of the control procedures in place related to the revenue and expenditure activity during our audit period, tested selected controls, reviewed transactions, and performed analytic procedures to determine the reasonableness of the library's financial activity. We also determined compliance with various state laws and regulations through interviews with key library personnel and by reviewing supporting documentation.

Background

The library's focus is to strengthen Montana libraries by directing the development and improvement of library services, providing library services to Montanans who cannot read traditional print materials, and managing and providing access to state government, geographic, and natural resources information for all Montana citizens. The library is governed by the Library Commission, consisting of five Governor appointees, the state Superintendent of Public Instruction or the superintendent's designee, and a librarian appointed by the Commissioner of Higher Education. The library is organized into four work groups with a total of 50.91 full-time equivalent (FTE) employees on or as of June 30, 2021, as discussed below.

Information Management (10.72 FTE): Within this workgroup, staff provide comprehensive statewide geospatial information, including the Natural Resource Information System (NRIS) which provides for the acquisition, storage, and dissemination of information concerning Montana's natural resources. The Water Information System is a program of NRIS and provides access to information relating to Montana's water resources.

The Natural Heritage Program provides information on the status and distribution of Montana's native animals and plants, emphasizing species of concern and high-quality habitats. The program manages the Montana Wetland and Riparian Mapping Center, the Montana Land Management Mapping Program, and the Montana Field Guide.

User Services (13.82 FTE): This group includes Geographic Information System analysts who provide consulting services and technical support to local, state, and tribal governments to support the local creation of geospatial data. Staff also administer a grant program to fund geospatial data development.

Talking Book Library staff provide no-cost audiobooks, magazines, and government information to eligible Montana residents who are unable to use traditional print materials.

Library Development staff provide the tools, training, and expertise to Montana libraries through various programs and resources including Statewide Library Consultants, Statewide Training and Certification, Ready 2 Read, Montana Memory Project, Montana Courier Alliance, and Library2Go. The Library2Go is a statewide downloadable e-content service providing access to over 25,000 eBooks and downloadable audiobooks to patrons of the Montana Library2Go members.

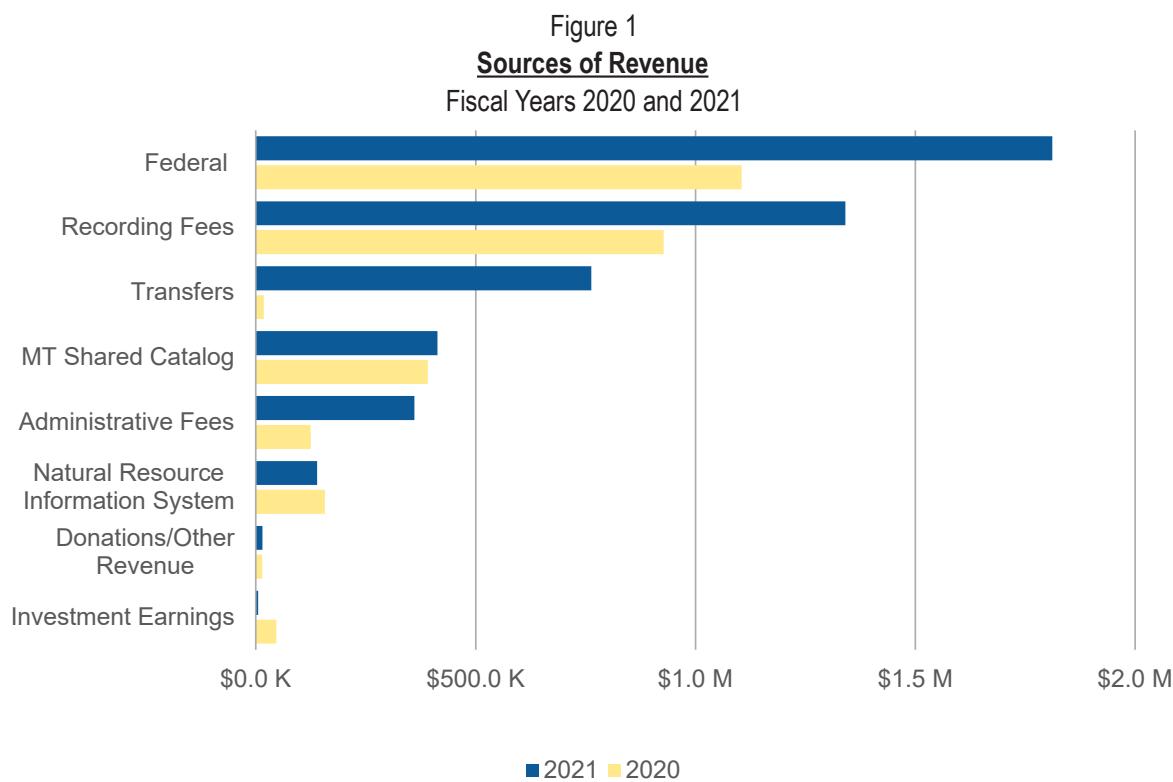
Information Products (17.16 FTE): This group builds and maintains the agency websites and applications through which the public access the information managed by the State Library. Examples of applications include the Montana Cadastral Application and the Montana Field Guides.

Staff also support the Montana Shared Catalog (MSC) integrated library system and membership consortia. The MSC has members located in 99 communities, including 69 schools, five academic libraries, and 11 special libraries (law, medical, government, and museum) across Montana and provides access to more than five million items to Montanans.

Central Services (9.21 FTE): This group supports all the library's programs by performing accounting, fiscal management, payroll, information technology support, and other administrative functions.

All the financial activity from the work groups discussed above is reflected in a singular Statewide Library Resources Program on the library's Schedule of Expenditures & Transfers-Out beginning on page A-7.

Library operations are funded by a variety of revenue sources, in addition to the General Fund, as shown in Figure 1 (see page 3).

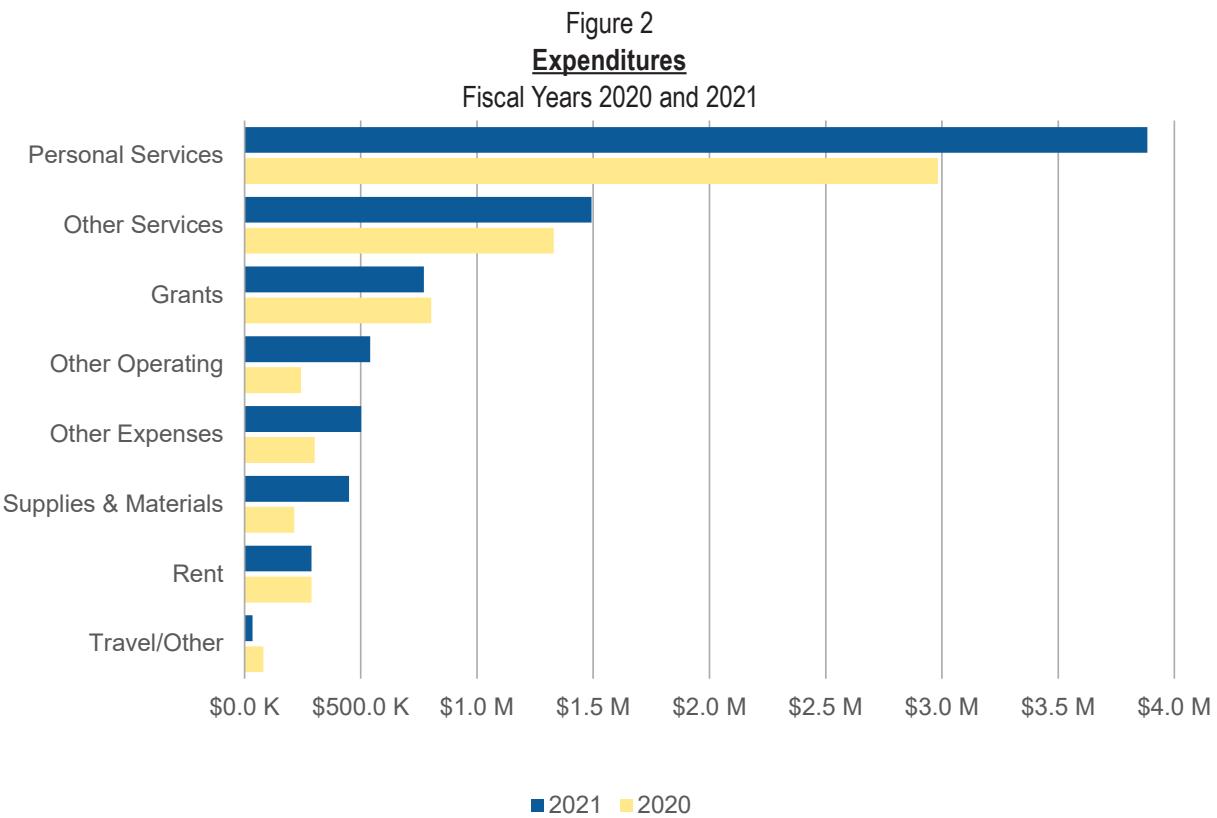


Source: Compiled by the Legislative Audit Division.

Recording fees are the result of a state law that provides that \$0.75 of each fee paid for documents recorded at the county clerk and recorder offices be provided to the library. The large increase from fiscal year 2020 to fiscal year 2021 is attributable to the increased housing market and recorded documents. Montana Shared Catalog revenue results from fees paid by the members to cover the costs of administering the shared catalog program. The Natural Resource Information System (NRIS) is available to the public but is funded by core users. These core users, which are state agencies, pay a set amount to the library to administer this system.

The large increase of Federal and Transfers revenue during fiscal year 2021 is due to additional funds received from the Coronavirus Aid, Relief, and Economic Security Act (CARES) and Governor's Emergency Education Relief funds in response to the Coronavirus Pandemic. The funds were used to launch a mobile hot spot and device lending program that allows community members to borrow devices. The programs' goal was to address the need for online access during the pandemic.

Library operations resulted in expenditures as shown in Figure 2 (see page 4). The library filled vacant positions in both fiscal years as well as added additional FTE in fiscal year 2021, increasing personal service costs. Other services expenditures consist of multiple contracts held by the library. These include contracts for storing digital content, shared catalog administration, and marketing plan development. During fiscal year 2020, the library saw a decrease in operating expenses due to the COVID-19 pandemic, but expenses resumed to pre-pandemic levels in fiscal year 2021.



Source: Compiled by the Legislative Audit Division.

Prior Audit Recommendation

The prior financial-compliance audit report contained one recommendation related to the Natural Resource Information System accounting. We recommended the library record revenue according to state accounting policy based on the paying source. The library has fully implemented the recommendation.

Chapter II – Findings and Recommendation

Incentive Pay

Montana State Library incentive pay was not part of an established plan during the audit period, contrary to the state's broadband pay plan policy.

In fiscal years 2020 and 2021, the Montana State Library (library) used the unspent personal services budget to fund incentive pay (bonuses) for library staff. The Montana State Library Commission approved the bonuses based on library successes throughout the year. The library paid the bonuses to all staff based on position. In fiscal year 2020, Helena supervisors received 6 percent and remaining staff received 5 percent, while remote supervisors received 4 percent and the remaining remote staff received 3 percent. In fiscal year 2021, supervisors received \$3,500, and staff received \$2,500.

The library splits the costs between funds in the same manner as employee salaries. See Table 1 for the funding used to pay the bonuses.

Table 1
Library Bonus Funding Sources
Fiscal Years 2020 and 2021

Fund	Fiscal Year 2020	Fiscal Year 2021
General	\$65,733	\$69,175
State Special Revenue Fund (SSRF)-Montana State Library one-time only funding	-	\$1,250
SSRF-Heritage Program	-	\$2,650
SSRF-Montana Land Information	\$22,067	\$20,650
Federal Special Revenue Fund (FSRF)-Institute of Museum and Library Services	\$18,877	\$26,900
FSRF-Natural Resources Information System	\$2,404	\$2,500
Enterprise Fund-Montana Shared Catalog	\$3,737	\$8,875
Total	\$112,818	\$132,000

Source: Compiled by Legislative Audit Division from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS).

Montana Operations Manual (MOM) Broadband Pay Policy allows for lump sum payments, such as bonuses, for reasons established in an agency's pay policy. Reasons including employee incentive award, housing allowances, temporary assignment pay, or a performance award for completing pre-set conditions of a project. However, the library's pay plan policy dated August 10, 2018, in effect during the audit period, did not provide for these types of incentives or lump-sum payments. Therefore, the bonuses paid during the audit period were made contrary to the library's pay policy established to comply with the state's Broadband Pay Policy.

Under the Broadband Pay Policy, the library is required to update its pay plan policy every two years. While the pay plan in effect during fiscal years 2020 and 2021 did not have language allowing for lump-sum or incentive payments, prior policies did contain such language. Management indicated the language was accidentally removed from the policy in effect during the audit period and they have added the language back into the current policy. In addition, library personnel indicated they could not implement expectations at the beginning of the period because they may not have sufficient resources to pay the bonus.

In addition to the bonuses being contrary to state policy, as outlined in Table 1, a portion of the bonuses were paid from federal grant funds. Under federal regulations, incentive pay is allowable if certain conditions are met, such as the payments being made pursuant to an established plan followed by the library so consistently as to imply, in effect, an agreement to make such payment. We do not consider the fact that similar payments were made eight times in the last twelve years to imply, in effect, an agreement to make payment. Federal regulation also requires costs charged to grants to be consistent with policies and procedures that apply to both federally-financed and other activities of the library. Because the bonus costs were not paid as part of an established plan during the audit period and were paid contrary to the library's pay plan policy and the state's Broadband Pay Policy, we consider the costs charged to the grants to be unallowable and constituted noncompliance with federal regulations. We reported questioned costs of \$45,777 in our most recent Single Audit report for the State of Montana charged to the Institute of Museum and Library Services grant funds.

RECOMMENDATION #1

We recommend the Montana State Library comply with federal regulations and state policy regarding employee incentive pay.

**Independent Auditor's Report and
Montana State Library Commission
Financial Schedules**

LEGISLATIVE AUDIT DIVISION

A-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana State Library for each of the fiscal years ended June 30, 2021, and 2020, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Montana State Library's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Montana State Library's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Montana State Library as of June 30, 2021, and June 30, 2020, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity for the Montana State Library for each of the fiscal years ended June 30, 2021, and 2020, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 18, 2022, on our consideration of the Montana State Library's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montana State Library's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

May 18, 2022

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2020	\$ (332,946)	\$ 2,982,372	\$ (5,264)	\$ (33,467)
ADDITIONS				
Budgeted Revenues & Transfers-In		1,785,304	2,561,559	413,358
Nonbudgeted Revenues & Transfers-In		10,065		
Prior Year Revenues & Transfers-In Adjustments	8,812	69,679		
Direct Entries to Fund Equity	3,286,107	380,283		
Total Additions	<u>3,294,920</u>	<u>2,245,331</u>	<u>2,561,559</u>	<u>413,358</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,984,950	1,891,445	2,600,519	439,673
Nonbudgeted Expenditures & Transfers-Out	(8,812)	21,219	8,812	26,031
Prior Year Expenditures & Transfers-Out Adjustments	8,812	(11,692)		
Total Reductions	<u>2,984,950</u>	<u>1,900,972</u>	<u>2,609,331</u>	<u>465,704</u>
FUND EQUITY: June 30, 2021	\$ (22,976)	\$ 3,326,730	\$ (53,036)	\$ (85,813)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund
FUND EQUITY: July 1, 2019	\$ (167,701)	\$ 3,127,864	\$ (3,794)	\$ (80,018)
ADDITIONS				
Budgeted Revenues & Transfers-In		1,241,412	1,120,590	391,212
Nonbudgeted Revenues & Transfers-In		42,976		
Prior Year Revenues & Transfers-In Adjustments		(12,004)	795	
Direct Entries to Fund Equity	2,747,288	438,447		7,928
Total Additions	<u>2,747,288</u>	<u>1,710,832</u>	<u>1,121,385</u>	<u>399,140</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	2,923,240	1,853,064	1,122,855	370,580
Nonbudgeted Expenditures & Transfers-Out	(1,663)	63,930		(17,991)
Prior Year Expenditures & Transfers-Out Adjustments	(9,045)	(60,670)		
Total Reductions	<u>2,912,532</u>	<u>1,856,324</u>	<u>1,122,855</u>	<u>352,588</u>
FUND EQUITY: June 30, 2020	\$ (332,946)	\$ 2,982,372	\$ (5,264)	\$ (33,467)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Charges for Services		\$ 1,701,594		\$ 413,358	\$ 2,114,952
Investment Earnings		5,258			5,258
Grants, Contracts, and Donations		6,014			6,014
Transfers-in		152,182	\$ 750,000		902,182
Inception of Lease/Installment Contract	\$ 8,812				8,812
Federal			\$ 1,811,559		\$ 1,811,559
Total Revenues & Transfers-In	8,812	1,865,048	2,561,559	413,358	4,848,777
Less: Nonbudgeted Revenues & Transfers-In		10,065			10,065
Prior Year Revenues & Transfers-In Adjustments	8,812	69,679			78,491
Actual Budgeted Revenues & Transfers-In	\$ 0	\$ 1,785,304	\$ 2,561,559	\$ 413,358	\$ 4,760,221

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

TOTAL REVENUES & TRANSFERS-IN BY CLASS	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
Taxes		\$ 795		\$ 795
Charges for Services	\$ 1,052,140		\$ 391,212	1,443,352
Investment Earnings	46,557			46,557
Grants, Contracts, and Donations	13,954			13,954
Transfers-in	159,734	15,297		175,031
Federal		1,105,293		1,105,293
Total Revenues & Transfers-In	<u>1,272,384</u>	<u>1,121,385</u>	<u>391,212</u>	<u>2,784,982</u>
Less: Nonbudgeted Revenues & Transfers-In	42,976			42,976
Prior Year Revenues & Transfers-In Adjustments	(12,004)			(12,004)
Actual Budgeted Revenues & Transfers-In	<u>\$ 1,241,412</u>	<u>\$ 1,120,590</u>	<u>\$ 391,212</u>	<u>\$ 2,753,215</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Statewide Library Resources	Total
Personal Services		
Salaries	\$ 2,821,897	\$ 2,821,897
Employee Benefits	1,054,899	1,054,899
Personal Services-Other	7,022	7,022
Total	<u>3,883,819</u>	<u>3,883,819</u>
Operating Expenses		
Other Services	1,492,304	1,492,304
Supplies & Materials	449,829	449,829
Communications	425,114	425,114
Travel	571	571
Rent	287,699	287,699
Repair & Maintenance	115,255	115,255
Other Expenses	501,652	501,652
Total	<u>3,272,423</u>	<u>3,272,423</u>
Equipment & Intangible Assets		
Equipment	5,495	5,495
Total	<u>5,495</u>	<u>5,495</u>
Grants		
From State Sources	771,006	771,006
Total	<u>771,006</u>	<u>771,006</u>
Debt Service		
Capital Leases	3,043	3,043
Total	<u>3,043</u>	<u>3,043</u>
Post Employment Benefits		
Other Post Employment Benefits	15,686	15,686
Employer Pension Expense	9,486	9,486
Total	<u>25,173</u>	<u>25,173</u>
Total Expenditures & Transfers-Out	<u>\$ 7,960,958</u>	<u>\$ 7,960,958</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 2,984,950	\$ 2,984,950
State Special Revenue Fund	1,900,972	1,900,972
Federal Special Revenue Fund	2,609,331	2,609,331
Enterprise Fund	465,704	465,704
Total Expenditures & Transfers-Out	<u>7,960,958</u>	<u>7,960,958</u>
Less: Nonbudgeted Expenditures & Transfers-Out	47,251	47,251
Prior Year Expenditures & Transfers-Out Adjustments	(2,879)	(2,879)
Actual Budgeted Expenditures & Transfers-Out	7,916,587	7,916,587
Budget Authority	11,055,128	11,055,128
Unspent Budget Authority	<u>\$ 3,138,541</u>	<u>\$ 3,138,541</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 21,244	\$ 21,244
State Special Revenue Fund	393,284	393,284
Federal Special Revenue Fund	2,719,607	2,719,607
Enterprise Fund	4,407	4,407
Unspent Budget Authority	<u>\$ 3,138,541</u>	<u>\$ 3,138,541</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Statewide Library Resources	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 2,175,612	\$ 2,175,612
Other Compensation	475	475
Employee Benefits	801,948	801,948
Personal Services-Other	4,992	4,992
Total	<u>2,983,026</u>	<u>2,983,026</u>
Operating Expenses		
Other Services	1,330,170	1,330,170
Supplies & Materials	214,119	214,119
Communications	94,209	94,209
Travel	75,821	75,821
Rent	288,167	288,167
Repair & Maintenance	148,043	148,043
Other Expenses	302,139	302,139
Total	<u>2,452,668</u>	<u>2,452,668</u>
Equipment & Intangible Assets		
Total		
Grants		
From State Sources	<u>802,996</u>	<u>802,996</u>
Total	<u>802,996</u>	<u>802,996</u>
Debt Service		
Capital Leases	2,283	2,283
Total	<u>2,283</u>	<u>2,283</u>
Post Employment Benefits		
Other Post Employment Benefits	395	395
Employer Pension Expense	2,933	2,933
Total	<u>3,328</u>	<u>3,328</u>
Total Expenditures & Transfers-Out	\$ 6,244,300	\$ 6,244,300
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 2,912,532	\$ 2,912,532
State Special Revenue Fund	1,856,324	1,856,324
Federal Special Revenue Fund	1,122,855	1,122,855
Enterprise Fund	352,588	352,588
Total Expenditures & Transfers-Out	<u>6,244,300</u>	<u>6,244,300</u>
Less: Nonbudgeted Expenditures & Transfers-Out	44,277	44,277
Prior Year Expenditures & Transfers-Out Adjustments	(69,715)	(69,715)
Actual Budgeted Expenditures & Transfers-Out	6,269,739	6,269,739
Budget Authority	7,333,997	7,333,997
Unspent Budget Authority	<u>\$ 1,064,258</u>	<u>\$ 1,064,258</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 70,800	\$ 70,800
State Special Revenue Fund	51,426	51,426
Federal Special Revenue Fund	928,452	928,452
Enterprise Fund	13,579	13,579
Unspent Budget Authority	<u>\$ 1,064,258</u>	<u>\$ 1,064,258</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

Montana State Library Commission

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2021

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana State Library (MSL) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State and Federal Special Revenue). In applying the modified accrual basis, the library records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the library to record the cost of employees' annual and sick leave when used or paid.

The library uses accrual basis accounting for its Proprietary (Enterprise) fund category. Under the accrual basis, as defined by state accounting policy, MSL records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though MSL receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

Beginning with the fiscal year 2020 and 2021 financial schedules opined on in the 2020 cycle, the Schedule of Total Revenues and Transfers-In will no longer report revenue estimate information.

The library uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Library State Special Revenue Funds include allocations of Coal Severance Taxes, Natural Resource Information System contracts with state and private entities, Montana Land Information, and other private donations.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Library Federal Special Revenue Funds include the Library Services and Technology Act grants and Natural Resource Information System contracts with federal entities.
- ♦ **Proprietary Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Library Enterprise Funds include Montana Shared Catalog.

2. General Fund Equity Balance (negative balances)

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The library has authority to pay obligations from the statewide General Fund within its appropriation limits. The library expends cash or other assets from the statewide fund when it pays General Fund obligations. The library's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2020, and June 30, 2021.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Unspent Budget Authority

The Schedule of Total Expenditures & Transfers-Out for 2020 presents unspent budget authority of \$51,426 in the State Special Revenue Fund and \$928,452 in the Federal Special Revenue Fund. State Special Revenue unspent authority is related to lower than estimated Coal Severance Tax Revenue, Montana Land Information Account, which is based on an estimate in HB 2, and is driven by the Montana Land Plan yearly approval and revenue forecast and NRIS contract related services. State Special unspent authority also includes one-time only money to study 911 GIS Mapping. This was a biennial appropriation that carried forward from the last FY. In the Federal Special Revenue Fund, NRIS federal contract related services and the federal authority for the Library Services and Technology Act funds are based on an estimate in HB 2 and funded as continuing appropriations. Expenditures are driven by the award and projects each year, and the unspent authority carries into FY 20.

The Schedule of Total Expenditures & Transfers-Out for 2021 presents unspent budget authority of \$393,284 in the State Special Revenue Fund and \$2,719,607 in the Federal Special Revenue Fund. State Special Revenue unspent authority is related to Montana Land Information Account, which is based on an estimate in HB 2, and is driven by the Montana Land Plan yearly approval and revenue forecast and NRIS contract related services. In the Federal Special Revenue Fund, NRIS federal contract related services and the federal authority for the Library Services and Technology Act funds are based on an estimate in HB 2 and expenditures are driven by the award and projects each

year. One time only Covid funds and ARPA funds are based on an estimate in HB 2 and funded as continuing appropriations. Expenditures are driven by the award and projects each year, and the unspent authority carries into FY 22.

5. Montana Natural Heritage Program Transfer

Acting on the approval of the State Library Commission granted in February 2020, the Montana State Library took over direct administration of the Montana Natural Heritage Program. The program was previously under contract by the University of Montana. This decision was made for the State Library to have more direct oversight of the program priorities and objectives.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana State Library for each of the fiscal years ended June 30, 2021, and 2020, and the related notes to the financial schedules, and have issued our report thereon dated May 18, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Montana State Library's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Montana State Library's internal control. Accordingly, we do not express an opinion on the effectiveness of the Montana State Library's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montana State Library's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Montana State Library's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Montana State Library's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

May 18, 2022

MONTANA STATE LIBRARY

LIBRARY RESPONSE



PO Box 201800 1515 East 6th Avenue Helena, MT 59620 (406) 444-3115

August 1, 2022

Mr. Angus Maciver, Legislative Auditor
Legislative Audit Division
P.O. Box 201705
Helena, MT 59620-1705

RECEIVED
AUG 04 2022
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

We would like to thank the Legislative Audit staff for their work to complete the State Library Commission Financial-Compliance Audit for the two fiscal years ending June 30, 2021. We appreciate their professionalism and the rapport they established with our staff which made the process both thorough and efficient.

The State Library partially concurs with Recommendation #1. The State Library acknowledges that the Broadband Pay Plan Policy in effect during this period did not include the required language to govern the application of our pay incentive strategy. This oversight was corrected when the State Library Commission adopted the current policy in October 2021. Based on communication from our federal program officer we believe we comply with federal regulations regarding incentive pay.

We are pleased with the unmodified opinions on the financial schedules and that the auditors found no deficiencies, material weaknesses, or material noncompliance.

We continue strive to ensure that uphold the highest standards of fiscal administration on behalf of the State of Montana.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely,

A handwritten signature in blue ink, appearing to read 'JS' followed by 'Stapp'.
Jennie Stapp
State Librarian